

Message Text

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ACTION EUR-12

INFO OCT-01 ISO-00 EB-04 TRSE-00 OES-03 L-02 CIAE-00

INR-05 NSAE-00 RSC-01 OMB-01 CIEP-01 CEA-01 SS-15

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TO SECSTATE WASHDC 3743

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C O N F I D E N T I A L MOSCOW 16071

E. O. 11652: GDS

TAGS: ETRD, EIND, UR, US

SUBJ: INTERNATIONAL HARVESTER CONTRACT TO BE SIGNED OCTOBER 25

USDOC FOR BEWT/TDAD

REF: MOSCOW 14593

1. DURING MEETING WITH DCM AND COMMATT OCTOBER 22, INTERNATIONAL HARVESTER IH OFFICIALS HEADED BY EXECUTIVE VICE PRESIDENT O.G. VOSS ADVISED THAT DOLLARS 100 MILLION CONTRACT FOR CRAWLER TRACTORS (REFTEL) WOULD BE SIGNED OCTOBER 25. VOSS SAID IH BELIEVED THAT CONTRACT WAS LARGEST OF ITS KIND EVER CONCLUDED BETWEEN US FIRM AND SOVIETS AND WAS IN ANY EVENT LARGEST SINGLE SALE EVER MADE BY IH. VOSS CONFIRMED THAT TRACTORS WOULD BE USED IN CONSTRUCTION OF BAIKAL-AMUR (BAM) RAILROAD, WITH SOME DELIVERIES SCHEDULED FOR 1975 AND BULK OF ORDER TO BE SHIPPED DURING 1976.

2. ONE INTERESTING ASPECT OF LATEST IH CONTRACT IS THAT SALE IS FOR CASH. AS REPORTED REFTEL, IH HAD OTXY PLANNED FOLLOW WHAT HAS BECOME STANDARD PRACTICE IN LARGE SALES TO SOVIETS AND CAPITALIZE DIFFERENCE BETWEEN 6.5 TO 7 PERCENT
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INTEREST RATE WHICH SOVIETS PREPARED TO PAY AND GOING MARKET

RATE. HOWEVER, IN VIEW SIZE OF CONTRACT AND EXTENT OF INTEREST RATE DIFFERENTIAL WHICH HAD TO BE DISGUISED, IH FOUND THAT FOLLOWING THIS TECHNIQUE WOULD INCREASE FACE VALUE OF CONTRACT BY DOLLARS 40 MILLION. IH NEGOTIATORS DECIDED EXPLAIN SITUATION FRANKLY TO SOVIETS, AND THEY WERE PLEASANTLY SURPRISED WHEN SOVIETS DECIDED TO PAY CASH.

3. ONE INTERESTING BIT OF INFORMATION PASSED ON BY IH GROUP WAS THAT SOVIETS HAD DECIDED TO POSTPONE SIBERIAN TRUCK PLANT PROJECT TO 1981-85 FIVE-YEAR PLAN PERIOD. SOVIETS CONFIRMED THAT PLANT WOULD BE LOCATED IN KRASNOYARSK.

4. COMMENT: AT PRESENT INBQLANS NO PUBLICITY FROM MOSCOW END ON CONTRACT SIGNING. ANNOUNCEMENT OF SIGNING WILL BE MADE FROM CHICAGO DURING WEEK OF OCTOBER 28 AND WILL BE PHRASED IN SUCH A WAY AS TO AVOID GIVING IMPRESSION TO OTHER IH CUSTOMERS THAT COMPANY DISCRIMINATING IN FAVOR OF SOVIETS IN ALLOCATION OF TRACTORS.
STOESSEL

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